White Brook Capital LLC
656 W Randolph Street
Chicago IL 60607
Tell: (312) 889-9022

2017 4th Quarter Commentary

Portfolio Review

As mentioned over the past several quarters, White Brook started incubating the Concentrated Opportunities Strategy ("Strategy", "Portfolio") in May. The intention was to keep the Strategy in incubation for a year before opening it to investment, but current and new clients have expressed strong interest in the product and White Brook has begun investing client capital. Given the recent influx of new clients and current client conversions, most of White Brook's clients and capital are now invested in line with the Concentrated Opportunities Strategy. This letter, therefore, will address that strategy today and moving forward. For clients engaged in the Model Portfolio, as usual, I'll be reaching out to talk about your investments. While White Brook will continue to maintain the Model Portfolio for current clients, new clients will only be invested in line with the Concentrated Opportunities Strategy.

As a refresher, the Concentrated Opportunities Strategy is considerably unbounded – able to invest in any concentration in any security or sector. It should be expected to typically hold between 5-15 securities and be overweight only a few industries. It is an environmentally and socially responsible portfolio, and a large majority of the investments attempt to take advantage of a dominant theme rather than only "it's cheap". Investing ahead of the adoption of big data through the economy has worked well so far, and the larger so-called "SaaSification of the US Economy" is likely to continue to dominate the portfolio in the medium term.

By concentrating investment, the Portfolio's correlation with the direction of the overall market should decline. It has, and is likely to continue to have periods of dramatic outperformance and underperformance relative to both the Model Portfolio and most market index tracking securities. White Brook subscribes to a buy and hold investment philosophy, and while White Brook will enter and exit stocks in the Portfolio, the bias is to find good companies and stick with them as they outperform the market over a long period of time. The approach should result in relatively low portfolio turnover and therefore tax efficient gains, but those qualities are an output and a reflection of White Brook's ability to find new investment opportunities whose long-term risk-reward is more favorable than existing investments rather than as a factor when deciding whether to sell an investment.

The Portfolio continues to be managed to avoid permanent impairment of capital, but White Brook's philosophy is to welcome daily, weekly, monthly, and quarterly volatility. Before considering investment please refresh on the risks of investing in such a concentrated vehicle.

White Brook would be more than happy to provide you with a non-exhaustive but impressive list of risks, and welcomes all calls and questions.

In its 8 months of existence in 2017, the product worked as designed. It both outperformed and underperformed the S&P 500 and the Russell 2000 for stretches during the year, ending the year outperforming the S&P 500 by over 200 basis points (2%) and the Russell 2000 by over 400 basis points (4%). It's beta (a measure of returns due to market movements) was relatively low compared to the S&P 500 and almost non-existent compared to the Russell 2000, and while data points are few (only 8 months), this suggests that the market's performance is not a good predictor of the Portfolio's. While it's a good outcome and hopefully bodes well for a scenario where the market's gains slow or reverse, it's only been 8 months. The Portfolio hasn't been as tax efficient as hoped, but that is in most part due to the acquisition of two of the portfolio companies in the last two quarters. In summary, the portfolio is working as designed, returns have been good, in my opinion, and the product should be attractive to a wide range of investors, but again the track record thus far is exceedingly short. That is of course on top of the fact that past performance is not a good indicator of future results.

Within the quarter, the Portfolio outperformed in October and December, and underperformed in November. In mid-December Campbell's Soup acquired Snyder's Lance – a stock that had been a relative laggard after earnings misses and CEO turnover, but the Portfolio would have performed well even without the buy-out. You should have received a letter from White Brook the day of the acquisition with thoughts on the investment. Please reach out if you missed it. Snyder's Lance continues to be a company with tremendous assets and I expect future investments will include businesses Brian Driscoll (CEO) or Alex Pease (CFO) helm.

Envision Healthcare and Realogy Holdings fell ~20% during the quarter. In my view, the same mistake was made in both investments. White Brook believed that given management turnover at the CFO (Envision) and CEO (Realogy) positions, guidance would be conservative relative to sell-side research expectations. The mistake was assuming that other investors (buy-side) thought so too. Both companies delivered results in line with investor expectations for the quarter and guided below expectations, and the stocks suffered. In both cases, White Brook added to positions as they traded down given their cheapness and the belief in the underlying businesses. The new tax law gives some pause on Realogy, but both positions continued to be held through the end of the quarter.

In the quarter, Snyder's Lance (LNCE), Discovery Communications (DISCA) and Mosaic Company (MOS) were the largest positive contributors to performance while

Envision Healthcare (EVHC), Realogy Inc (RLGY), and WageWorks (WAGE) were the largest detractors from performance. White Brook exited the Snyder's Lance position during the quarter and started new positions in Discovery Communications (DISCA), Monotype Imaging (TYPE) and WageWorks (WAGE)

Market Discussion

There are broadly five investment alternatives one can hold at any time: cash, cash-like alternatives, debt, equity, and real estate.

I believe more strongly today than I have in the past that that long term bonds are relatively unattractive and that short term fixed income instruments are more attractive, given the current structure of the yield curve and their resiliency to inflation.

An unusual dynamic has occurred within fixed income, as the yield curve of US treasuries has flattened. A "flattening" of the yield curve describes a condition when short term treasuries have similar yields to long term treasuries. When a bond holder, a lender, isn't compensated for the length of time that they are without their capital, something is wrong either with the market or with the economy. Various theories abound, White Brook believes there's some truth in a combination of the new tax law and the global discrepancy in yields creating a temporary dislocation in risk pricing. The flat yield curve should be expected to dissipate and return to normalcy in time with long term bond yields increasing – however, extraordinary measures over the past 10 years may result in unorthodox market behavior. White Brook is hopeful that higher yields will benefit the economy. While higher yields increase the costs of new investment for companies, over the past decade investment portfolios of retirees have suffered from a lack of opportunities to invest in higher yielding, but safe, securities. White Brook continues to recommend investors not yet purchase long term debt or securities that invest in long term debt.

It's important to note that dividend and interest income is less attractive today than it was before tax reform for most White Brook clients. Both of those income streams are considered income and are subject to federal and state taxation. Clients should seriously consider holding municipal bonds if looking to gain fixed income exposure.

Cash can always be expected to depreciate on a real basis at the rate of inflation less money market yields. I believe inflation is likely in the short-medium term as the economy continues to grow. Cash represents an option to invest later and, with changes in fixed income markets, is superior to investing in long-term bonds for now.

White Brook does not have an opinion on cash like securities at this time. What a difference a couple weeks makes. Between starting to write this letter and the time of the final edit, Bitcoin and the other cryptocurrencies have fallen precipitously as governments begin to clamp down on their use. I continue to believe crypto currencies are an acceptable asset class/currency, but believe that owners of Bitcoin, in particular, should be disturbed by the costs to transact while the others should be able to strongly defend their currency's existence vs other crypto currencies. Investors in Bitcoin should appreciate that the cost of the energy needed to maintain the network means that unlike paper fiat currency, Bitcoin is a depreciating asset at rest. Take a look at the long-term chart of VXX, an ETF that is supposed to track the market's volatility. Regardless of the amount of volatility in the market, in the long-term, its value is 0 because it must continually transact to maintain its exposure in the futures market. Similarly, for Bitcoin, unless those administering the network are powered by very cheap or renewable energy sources or the rules that govern Bitcoin lower the cost to maintain the network, it's a fundamentally flawed vehicle that expresses an interesting idea. Interestingly, in a reversal of last year, as Bitcoin has floundered gold has appreciated. Whether it's a reversal of the behavior of the marginal buyer or something more interesting occurring, White Brook isn't yet sure.

Equities continue to be well valued but not severely. As long as the economy grows in excess of 2.5%, the market's valuation at this time is within the realm of reasonable given interest rate levels. After a year in which I expected the market to appreciate by less than half its resulting performance, I'm out of the market prognostication game, however. White Brook's position is that the valuation of equity is highly dependent on growth. With global growth continuing, the environment is supportive for individual companies to grow as well. Changes to the overall economy's rates of growth, inflation, and interest can be expected to have an impact on the valuation of the market, with foreign exchange rates and a mentally declining President serving as a catalyst altering the trajectory of any one or all three. White Brook remains hyper vigilant to rising risks, but is still nearly fully invested.

In Focus: Discovery Communications (DISCA)

Every once in a while, the market presents a fat pitch for investors. Discovery Communications is a fat pitch.

Discovery owns popular television networks such as Discovery, TLC, SciFi channel, and the Oprah Winfrey Network, amongst others in the United States. While ~50% of Discovery's revenue comes from the United States, where it is subject to familiar challenges such as over the top streaming and cord cutting, approximately 50% comes from international markets where

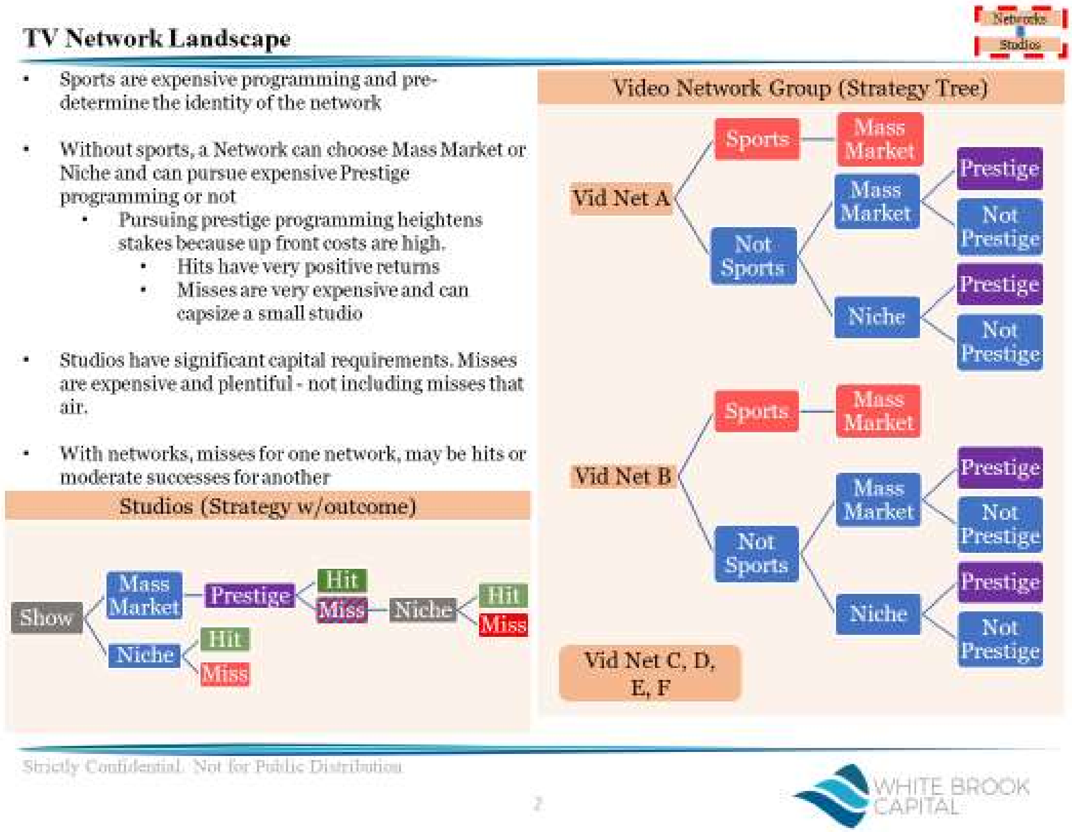
Discovery also leases premier sports rights and continues to expand distribution of its channels. Last July Discovery announced the acquisition of Scripps Networks. Scripps is also a non-sports non-fiction programmer, but is almost entirely US based and owns popular channels such as the Food Network and HGTV, amongst others.

Wall Street typically analyzes television networks by taking into account the number of subscribers, the fees it earns from its distribution (affiliate fees), and the fees it earns from advertising. Conventional thinking suggests that sports are the key to success because they are "must have" properties that could be used to prevent unbundling and allow the networks to sell other, less critical, channels. The rise of Netflix pushed unbundling further, separating the shows from the networks they were on.

White Brook believes that over time an increasing proportion of the rents from sports programming will be retained by the leagues themselves rather than the channels that broadcast it, as the media landscape, and distribution deals continue to evolve. In addition to the cost, trends in viewership make the economics of sports programming increasingly difficult in the United States. Viewership is declining as people watch fewer games, and less of each game, in part due to the wider variety of entertainment options available. Additionally, pursuing a sports strategy dominates the rest of the programming strategy for the network due to the economics and the audiences attracted. While unbundling is a force, it is not yet dominant, and the currently ongoing consolidation of networks may further blunt its edge.

The following exhibit, prepared for the White Brook Capital blog, highlights the decision tree for network owners. In short, networks can choose (a) sports programming for mass market; or (b) programming without sports for mass or niche market, and expensive Prestige programming (with significant upfront costs and capital for studios) or not.

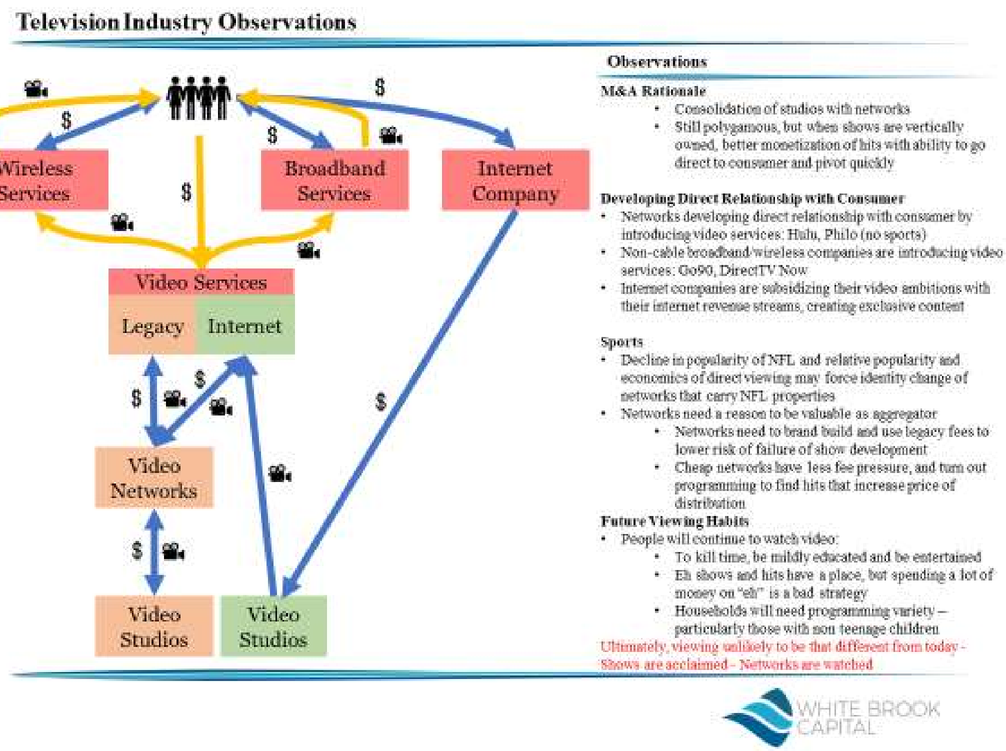
Exhibit A: TV Network Landscape



White Brook believes that in contrast to the model pursued by ABC, NBC, Fox, CBS, and A&E - networks who have pursued high cost, mass market, and prestige strategies – Discovery's investment in cheap non-fiction programming for the mass market and niche audience is most likely to have continuing and consistent positive returns on investment. While the "Golden Age of Television" has rewarded the prestige strategy, and has continued to reward the sports strategy, the degree is likely to lessen, as economics and viewership evolve. Discovery is able to produce programming for an average of 1/10th the average price of an hour of prestige television, for a substantially similar quality of impression. White Brook loves that dynamic, given its low price.

While the acquisition of Scripps isn't critical to Discovery's continuing success, it significantly enhances the likelihood that Discovery can emerge with substantially similar or improved economics as the business of delivering television evolves. Again, White Brook presented a framework for understanding the opportunity in an exhibit prepared for the White Brook Capital blog, reproduced here. In short, even with ongoing industry changes – including consolidation across studios and networks, direct to consumer relationship expansion, and changing value of networks as aggregators – White Brook believes people will continue to view video and seek programming variety.

Exhibit B: Television Industry Observations



White Brook therefore views Discovery's most compelling assets as:

1. Distribution on the basic tiers of all legacy television providers (Comcast, DirecTV, ATT, Verizon, Charter, etc)
2. Very low affiliate fees on those platforms – all of the channels cost the same price of a regional sports network or two
3. Ownership of its studios and all of the content shown on its US networks and most of the content shown around the world – The Company doesn't have to buy or build another studio in order to better monetize in other geographies, time slots, or distribution channels
4. Very high brand recognition of the channels, but not the shows – They're good time-killing channels with a broad and G rated audience

The opportunity is multifold. Discovery has strong channel recognition and recall, while cheaply providing a lot of channels with relatively high combined viewership. This allows Discovery to keep producing content, while hunting for a breakout hit that will allow them to charge higher affiliate fees. While in the past, those hits may have been in part squandered on a new network launch, moving forward those benefits should be able to be used to improve pricing for networks under the umbrella. A particularly compelling hit may also improve adoption amongst over the top providers at a rate faster than competitive pressures would dictate. An improvement in the ratings also would improve the advertising rates of the network its on as well. The Scripps acquisition only enhances that opportunity.

The Company's current valuation significantly undervalues the company in White Brook's view. A detailed sum of the parts suggests a price much higher than the stock is currently trading. Given media mogul John Malone's presence as the controlling shareholder, a catalyst may emerge in the form of an asset sale, or somewhat more likely a tracking stock that highlights the different characteristics of the US and International businesses. In White Brook's view, the stock trades as if the whole company's cash flow is shrinking, when in actuality the International business is growing rapidly, with better underlying fundamentals than the US business, and the US business is growing with the opportunity to recapture some of the subscribers that have been lost. Unlike other SaaS businesses or other broadcasters in particular, sales and marketing expense growth can be expected to be relatively tame, and the cost to produce content should be expected to grow relatively moderately given the exportability of the subject matter internationally.

At over 15% free cash flow yield post the transaction with Scripps, Discovery is priced as though free cash flow is declining considerably, when it's *increasing*. It's priced as if revenue has downside risk, when a majority of the risk is to the upside. The stock's decline from $40 was initially based on a postponement of the share repurchase due to the deal with Scripps, and then exacerbated by increasing subscriber losses. To White Brook, the deal with Scripps increases the upside of the combined entity, positively repositioning the company within the industry if only a few things go right while limiting the downside due to the prodigious cash flow if they don't. White Brook believes investment in the company's stock was well-timed and despite the appreciation since purchase, the stock will do well for investors for a long time.

As always, feel free to reach out to discuss this or any of your investments at White Brook Capital. I thank you for your support and will strive to continue to earn your trust.

Regards,

Basil F. Alsikafi

Portfolio Manager

White Brook Capital

All investments involve risk, including loss of principal. This document provides information not intended to meet objectives or suitability requirements of any specific individual. This information is provided for educational or discussion purposes only and should not be considered investment advice or a solicitation to buy or sell securities. The information contained herein has been drawn from sources which we believe to be reliable; however, its accuracy or completeness is not guaranteed. This report is not to be construed as an offer, solicitation or recommendation to buy or sell any of the securities herein named. We may or may not continue to hold any of the securities mentioned. White Brook Capital LLC and/or their respective officers, directors, partners or employees may from time to time acquire, hold or sell securities named in this report. It should not be assumed that any of the securities transactions or holdings discussed were or will prove to be profitable, or that the investment decisions we make in the future will be profitable or will equal the investment performance of the securities discussed herein.